



**US Army Corps
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ENGINEERING AND CONSTRUCTION BULLETIN

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Subject: Volatile Steel Prices and Programming of FY06 MILCON Projects

Applicability: Guidance

1. Purpose: The purpose of this bulletin is to provide interim guidance for programming FY06 MILCON projects due to fluctuations in steel prices.
2. Background: Recently some districts and MSCs have expressed concern about the rising price of steel products, such as, structural steel, metal deck, metal studs, rebar, pipes, wires, etc., used in construction projects and its impact on programming FY06 MILCON projects. In the last six months, steel prices have risen significantly, with more increases anticipated. Quotes obtained by contractors for steel products generally are valid for only a short time – certainly not long enough to account for the time lapse between bidding a job and actually placing an order. Based on preliminary analysis by some of our districts' cost engineering branches, it appears that the increase cost in steel products account for only about a 2% - 5% increase in the total costs for typical building construction.
3. There are two factors we presently use for programming that could be used to capture these steel price increases and provide adequate justification for any potential adjustments in the program amount (PA) of projects: the DoD Facilities Pricing Guidance and the Tri-Service Military Construction Program (MCP) Cost Growth Index.
 - a. The DoD Facilities Pricing Guidance controls the unit cost/square foot used by the installations for programming future MILCON projects. Although the guidance is updated annually, the current FY06 guidance does not reflect the recent or anticipated future increases in steel prices.
 - b. The MCP Cost Growth Index is a construction cost escalation index that uses factors to adjust the project cost from one point in time to another. These factors are updated annually (January/February) and are used to adjust our MILCON project PAs to the projected mid-point of construction. This index is based on the Engineering News Record Building Cost Index from the past to present time, and the Program Budget Decision memorandum prepared by the Under Secretary of Defense, Comptroller for projected rates from the present time to the future.
4. Guidance: Until actual FY04 award data is obtained and analyzed, we recommend using the MCP indexes to justify any material price increases. This index reflects any overall price fluctuations (materials, labor and equipment) in the construction industry, and not just the volatility of steel prices.

a. FY06 MILCON Programming: Continue business as usual (i.e. DD 1391 development and certification, and ENG 3086 development and validation). Use the "Explanation of Data Development" block in the ENG 3086 to document any actual pricing data utilized to develop the project's cost during the planning/design charrettes. If it is determined that the Current Working Estimate (CWE) during any of the design phases (35%, 65%, 95% and RFP) will exceed the PA, the project delivery team must first consider such options as value engineering and/or the inclusion of additives or options to bring the cost back within the PA. If not feasible, the project manager (PM) must immediately notify his/her chain of command, customer and HQUSACE that the CWE has exceeded the project's PA. If the project has not been submitted to Congress, ASCIM may either decide to increase the PA or reduce the project's scope to resolve the CWE to PA issue. After the project goes to Congress, HQUSACE and ACSIM must resolve CWE to PA issues. ACSIM has agreed to allow us to justify a request for additional funds on the difference between the initial MCP indexes documented in the Congressionally-approved DD1391 and the actual MCP index prior to award. Therefore, it is important that the cost engineer provide all supporting documentation (e.g. updated cost estimates to reflect current market conditions, cost analysis based on MCP indexes, bid analysis etc.) to justify any cost increase.

For example: Refer to Appendix C, PAX Newsletter 3.2.2 dated 09 Jan 2004. Assume that a project is programmed to the mid-point of construction, using the current forecasted MCP Index (1 Apr 07) of 2331. In Aug 2006, when the district PM reports that additional funding is required, the actual effective MCP index for 1 Apr 07 is 2450 rather than the forecast MCP of 2331. The increase (2450/2331) represents a 5% increase in the PA.

b. MILCON Programming Beyond FY06: Continue to follow the current programming policy. Collect and submit all FY04 award data to the Historical Analysis Generator (HAG) system as soon as the information becomes available. This information will be evaluated at the end of this calendar year and will be used to support adjustments to the DoD Facility Pricing Guidance for FY07 and beyond. Once this guidance is updated, it will reflect any adjustments due to price increases for steel and other major construction items.

5. Points of contact for this bulletin are Ray Lynn, CECW-CE, at 202-761-5887 and Ami Ghosh, CECW-CE-D at 202 761-7503 .



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